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ARAB STATES - ISRAEL: General quiet prevailed on the battlefront over the weekend, despite sporadic cease-fire violations and continued preparations by both sides for a possible resumption of hostilities. Arab oil producers underscored their political war with an additional production cutback.

The Syrian front was quiet, probably because of heavy rains there, but occasional minor outbreaks of fighting continued through the weekend along the Suez Canal. The Israelis claim that on 3 November the surrounded Egyptian Third Army tried to construct a small infantry bridge across the canal from the east bank between Suez and Little Bitter Lake. According to the Israelis, the bridging effort was given up following a three-hour artillery, mortar, and small arms duel.

Yesterday, a UN patrol reported fighting near Suez, as 200-300 Egyptian troops pushed out of the city and were engaged by Israeli infantry and tank units. UN observers also reported hearing heavy explosions near Ismailia, and the Israelis complained that the Egyptians had opened fire on their forces near the city.

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Israeli spokesmen warned repeatedly that Egyptian actions could lead to a major breakdown in the cease-fire. Defense Minister Dayan yesterday accused Egyptian forces of mobilizing on the west bank, and Foreign Minister Eban--in an airport statement before departing for a four-day visit to Romania--warned that the cease-fire cannot be considered stable so long as freedom of navigation is not assured through the Strait of Bab al-Mandab.

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In a move probably designed to step up political pressure before the Secretary's visit, Arab oil ministers announced a 25-percent production cutback based on September's production figures. Saudi Arabia, with the 10-percent limitation imposed in mid-October and the additional embargoes of shipments to the US and the Netherlands, had already reached the 25-percent level, and the new formulation appears to strengthen King Faysal's leadership role by committing the other producers to match his cutback. The move may be designed to bring countries such as Libya, Algeria, and Iraq, which have not been rigorously enforcing the earlier limitation, into line. If adhered to, it will increase the overall Arab cutback in November by some five percent over that already in effect.

At the UN, various delays threaten to slow deployment of the full 7,000-man UN Emergency Force (UNEF). The Secretary-General must negotiate agreements with each of the seven participant states approved by the Security Council last Friday. Consultations on the financing, size, and conditions

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of service for each of their contingents may be more complicated than usual because of the number of developing states which have not taken part in earlier peace-keeping operations.

The problem of how to pay for UNEF is also unresolved. The US Mission to the UN has found little support for the proposal that costs of the operation be apportioned among UN members according to the regular scale of assessments. Less-developed states are likely to support instead a Brazilian proposal making developed countries, particularly permanent Council members, responsible for 98 percent of the costs. Since there is no available cash on hand in the UN treasury, a delay in agreement on some system of assessing funds for UNEF could stall the entire operation.

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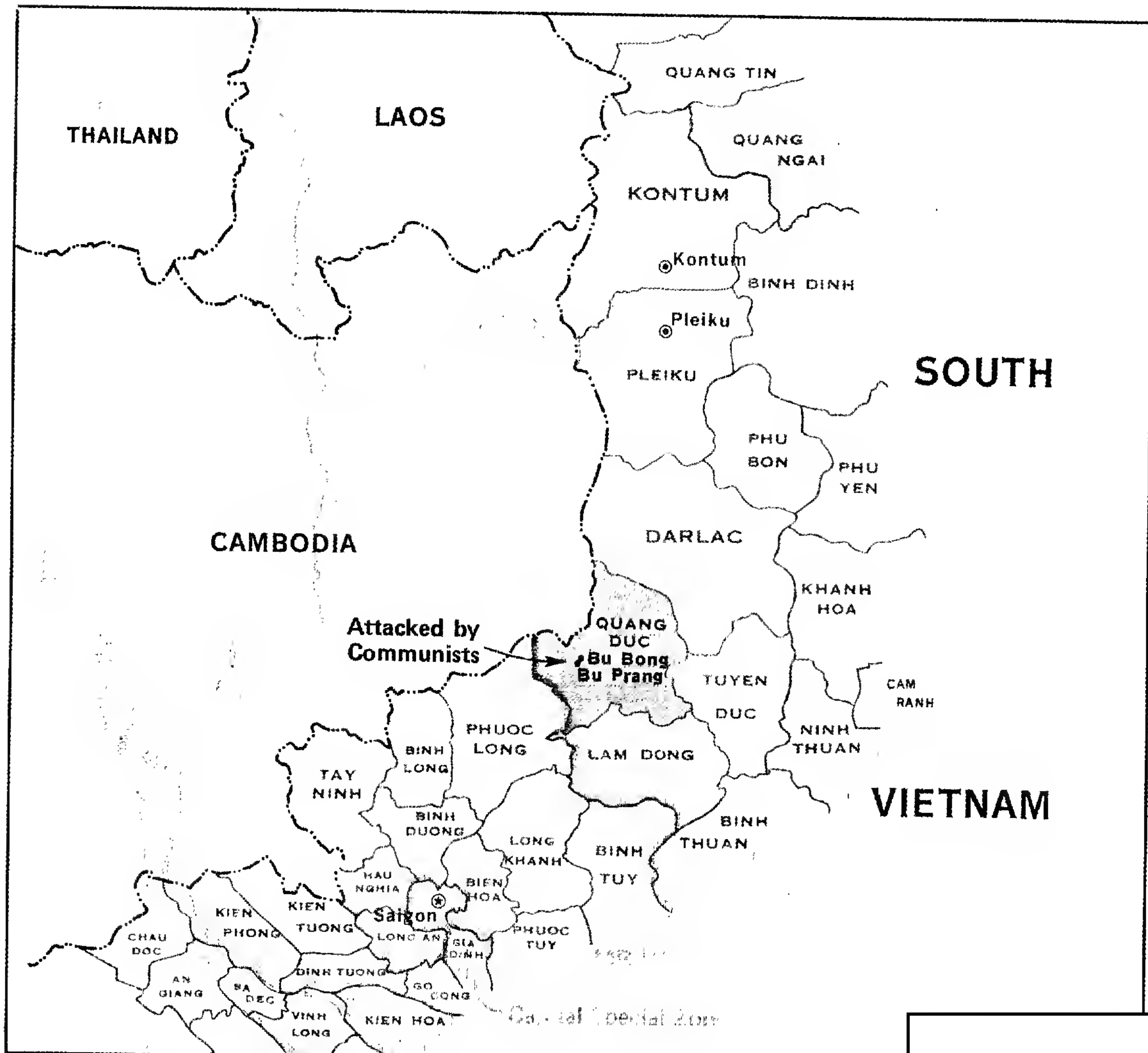

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SOUTH VIETNAM: Communist forces, backed by armor, have overrun two South Vietnamese outposts in Military Region 2 near the Cambodian border. The attacks on Bu Prang and Bu Bong in Quang Duc Province resulted in heavy casualties to both sides, according to South Vietnamese military spokesmen.

The Communist attacks coincided with a bellicose public statement from the Viet Cong regional command whose area of responsibility includes Quang Duc. The command ordered its forces to "recover all areas illegally occupied by the enemy" since the January cease-fire agreement. Since Communist propaganda on the situation elsewhere in the country has been taking a similar line, more aggressive Communist military action seems likely in other areas that have been contested since the cease-fire. 25X1

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INTERNATIONAL MONETARY DEVELOPMENTS: The central bank of Japan permitted the yen to slip 2 percent against the dollar Friday before intervening in the market. This follows a similar move Thursday that saw the yen depreciate by 1 percent. Despite these actions, money traders expect the yen to fall still further. At the new intervention point of 275 yen to the dollar, the Bank of Japan had to sell about $200 million, bringing total dollar sales during the week to about $800 million. The Ministry of Finance would like to limit the yen's decline to avoid criticism from Japan's major trade partners.

While the dollar's recent gains in the Tokyo market are the most dramatic evidence of its new strength, the dollar has been gradually gaining ground on the major money markets since the low point in early July. Despite temporary setbacks, the dollar has appreciated in the last four months by an average of 5-6 percent against the other major currencies. The most important factor in the rising confidence in the dollar is the improving US trade balance. The announcement of US trade data for September, which showed a seasonally adjusted surplus of $873 million, confirmed the optimism of traders about the long-run prospects for the dollar. Another factor has been the narrowing of differences in interest rates in the major countries.

The growing confidence in the dollar was not shaken by the Middle East War. No substantial speculative capital movements occurred, even though there were sales of dollars by several Arab countries. The currencies that normally attract speculative funds in times of crisis--the German mark and the Swiss franc--experienced only small gains relative to the dollar in early October because traders were hesitant to bet against long-term improvement of the US currency. Moreover, forward exchange rate differentials--the difference in cost between a currency's current exchange rate and its contracted cost for delivery at some date in the future--have narrowed

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to a point reflecting only the international differences in interest rates. Dollar strength is also discernible in those countries--France, Belgium, and Italy--that have two-tier markets for foreign exchange. In these countries, the "financial" rate--the rate not supported by the government--has been falling more quickly relative to the dollar than the commercial rate, indicating that foreign intervention to support the commercial rate is somewhat masking the dollar's strength.

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